

Independent Auditor's Report

TOWN OF MILFORD, NEW HAMPSHIRE
Financial Statements
December 31, 2004
and
Independent Auditor's Report

**TOWN OF MILFORD, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2004**

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**TOWN OF MILFORD, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2004**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Milford, New Hampshire

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milford, New Hampshire as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milford, New Hampshire, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Town adopted Governmental Accounting Standards Board Statements Nos. 34, 37, 38 and GASB Interpretation 6 during the year ended December 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages 2-11 and 41-42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Milford, New Hampshire's basic financial statements. The combining nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vachon, Clukay & Co., PC

April 7, 2005

**Town of Milford, New Hampshire
Management's Discussion and Analysis
December 31, 2004**

This section of the Town of Milford, New Hampshire financial report presents our discussion and analysis of the financial activities of the Town for the year ended December 31, 2004. Please read it in conjunction with the transmittal letter and financial statements presented in this report.

These financial reports represent the Town's first year of financial reporting under the major new reporting format in compliance with the Governmental Accounting Standards Board Statement No. 34 (GASB 34). The new accounting standard requires significant changes in governmental financial reporting. The major areas of change include:

- Reporting of the Town's governmental capital assets and related depreciation of these assets
- Management discussion and analysis section
- Presentation of the financial statements similar to the private business sector

Since this is the first year of implementation, this analysis provides limited comparisons to prior years. Future year's comparisons as required will contain more meaningful information relating to the Town's finances and changes in financial position.

FINANCIAL HIGHLIGHTS

Government-wide highlights

- The Town's total assets exceeded total liabilities by 37.5 million. This amount is presented as "Total Net Assets" on Exhibit A-Statement of Net Assets. Of this amount, \$2.6 million was reported as unrestricted, \$2 million was restricted and \$32.9 million was invested in capital assets, net of related debt.
- Governmental activity revenues exceeded expenses thereby increasing the Town's net assets by \$1.6 million.

Fund Highlights

- The General Fund reported a fund balance this year of \$1 million.
- General Fund actual revenues exceeded estimates by \$144 thousand while the overall actual expenditures were \$441 thousand less than appropriated. Additional detail is provided in the General Fund Budgetary Highlights section of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's financial statements. The basic financial statements contain the following components.

- 1.) Government-wide financial statements

- 2.) Fund financial statements
- 3.) Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to the private sector. Our analysis of the Town begins on Exhibit A and B. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements are prepared utilizing the accrual basis of accounting whereas current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. The Town's net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of net assets and the statement of activities divide the Town into two types of activities:

- Governmental Activities – Most of the Town's basic functions are reported here which include the general government, public safety, highways and streets, health and welfare, sanitation, culture and recreation and debt service. Property taxes, intergovernmental revenues, permits and fees, and state and federal grants finance most of these activities.
- Business Type Activities – The Town charges a fee to customers with the intention of recovering all or a significant portion of the costs through user fees and charges. The Town's Water and Sewer funds are reported here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's funds, focusing on its most significant or "major" funds, not the Town as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Town, like other local governments, uses fund accounting to ensure and exhibit compliance with finance-related legal requirements. Some funds are established as required by state statute while others are instituted by the Town to help control and manage financial activities for a specific purpose, such as police outside detail and grants. The Town's funds are divided into three fund categories; governmental, proprietary and fiduciary.

- Governmental Funds (Exhibit C and D) – Most of the Town's basic functions are reported in governmental funds which focus on how money flows in and out of those funds and balances remaining at year end that are available for spending. These funds are reported on a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the services it provides. Governmental fund information helps to determine whether there are more or fewer

financial resources that are available for spending in the near future to finance the Town's programs. The differences between governmental activities as reported in the statement of net assets and the statement of activities and governmental funds are itemized in a reconciliation located at the bottom of the fund financial statements.

- Proprietary funds (Exhibit E, F and G) – When the Town charges water and sewer customers for the services it provides; they are reported in proprietary funds. Proprietary funds are reported in the same way that all business type activities are reported in the government wide financial statements but provide more detail and a statement of cash flows.
- Fiduciary Funds (Exhibit H & I) – The Town acts as a trustee for various trust funds. Because of the trust arrangement, these funds can only be used for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-40 of this report

Required Supplementary Information

- The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule of the Town's General Fund.

In addition to the required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which is added together and presented in a single column in the basic financial statements.

GOVERNMENT WIDE ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The condensed analysis below focuses on the net assets of the Town's governmental and business type activities.

Town of Milford			
Table 1 - Condensed Statement of Net Assets			
December 31, 2004			
	Governmental Activities	Business-type Activities	Total (Combined)
ASSETS:			
Current Assets	\$ 17,619,913	\$ 1,914,076	\$ 19,533,989
Capital Assets	15,725,303	20,025,869	35,751,172
Total Assets	\$ 33,345,216	\$ 21,939,945	\$ 55,285,161
LIABILITIES:			
Current Liabilities	\$ 13,515,047	\$ 386,539	\$ 13,901,586
Noncurrent Liabilities	5,688,336	871,462	6,559,798
Total Liabilities	\$ 19,203,383	\$ 1,258,001	\$ 20,461,384
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 13,863,610	\$ 18,986,616	\$ 32,850,226
Restricted	2,017,761	-	2,017,761
Unrestricted/(Deficit)	902,005	1,695,328	2,597,333
Total Net Assets	\$ 16,783,376	\$ 20,681,944	\$ 37,465,320

The Town's combined net assets are \$37.5 million of which \$16.8 million represents governmental activities and the remaining \$20.7 million relates to business type activities

By far the largest portion of the Town's net assets (87.7%) reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the Town's net assets (5.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (6.9%) may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities reflect a positive unrestricted net asset balance of approximately \$900 thousand at the end of the year. It is worthwhile noting that the governmental activities of the Town have recognized \$1.4 million of debt associated with water and sewer related assets. While the debt is reflected in governmental activities, the corresponding asset is recognized in business-type activities.

Business-type activities reflect a positive unrestricted net asset balance of \$1.7 million of which can only be used to finance the continuing operations of the Water and Sewer functions. Exhibit E provides a specific column for each of the Water and Sewer funds.

Changes in Net Assets

Table 2 presents the Town's condensed changes in net assets as derived from the government-wide Statement of Activities.

REVENUES:

Program Revenues:

Charges for Services	\$ 649,592	\$ 2,270,439	\$ 2,920,031
Operating grants and contributions	493,461	-	493,461
Capital grants and contributions	303,536	105,941	409,477

General Revenues:

Property and other taxes	6,295,166	-	6,295,166
Licenses and permits	2,396,340	-	2,396,340
Grants and contributions	845,932	-	845,932
Interest and investment earnings	270,835	4,576	275,411
Miscellaneous	445,105	9,162	454,267

TOTAL REVENUES

	<u>11,699,967</u>	<u>2,390,118</u>	<u>14,090,085</u>
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EXPENSES:

Program Expenses:

General government	3,340,890	-	3,340,890
Public safety	3,322,842	-	3,322,842
Highways and streets	1,107,967	-	1,107,967
Health and welfare	324,515	-	324,515
Sanitation	714,272	-	714,272
Economic development	15,731	-	15,731
Culture and recreation	999,328	-	999,328
Interest and fiscal charges	220,434	-	220,434
Water and sewer	-	2,482,260	2,482,260

TOTAL EXPENSES

	<u>10,045,979</u>	<u>2,482,260</u>	<u>12,528,239</u>
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Excess/(Deficiency) before transfers	1,653,988	(92,142)	1,561,846
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Transfers	(58,548)	58,548	-
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Increase/(Decrease) in net assets	<u>\$ 1,595,440</u>	<u>\$ (33,594)</u>	<u>\$ 1,561,846</u>
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The increase or decrease in net assets can provide an indication as to whether the overall financial position of the Town improved or deteriorated during the year. The total net assets for the Town increased by \$1.6 million during the year. Governmental activities net assets increased by \$1.7 million or (10.5%) while business-type activities net assets decreased by \$34 thousand (.0016%).

Governmental Activities

Governmental activity revenues exceeded expenses by \$1.6 million.

The primary sources of revenue for the Town were derived from property taxes (53.8%), licenses and permits (20.5%), and program revenues (12.4%). Interest earnings, grants and miscellaneous revenues accounted for the remaining 13.3% of revenues.

The Town's expenses cover a range of functions. The largest functional expenses were related to the general government (33.3%), public safety (33.0%), highways and streets (11.0%), and culture and recreation (9.9%), which collectively accounted for 87.2% of total expenditures.

Business-type Activities

Overall, the charges for goods and services for the Town's business type activities were inadequate to cover the operating expenses. The loss relates specifically to sewer operations as reflected in Exhibit F. However, since the Sewer activities retain a positive cumulative earnings position, there are still sufficient net assets to support these activities. The water activities report a positive change in net assets for the year.

In an effort to ensure the rates are set at levels sufficient to maintain the water and sewer systems over the long term, the Board of Selectmen have authorized a water and sewer rate study to be completed in 2005.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in determining the Town's financing requirements. In particular, unreserved fund balance may serve as a practical benchmark of a government's net resources available for spending at the end of the year.

At the end of the year, the Town's governmental funds (as presented in Exhibit C) reported a combined ending fund balance of \$6,102,372. Approximately 79.5% of the total fund balance (\$4,853,579) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed for a variety of legally restricted purposes.

The General Fund is the chief operating fund of the Town. At the end of the year, unreserved fund balance of the General Fund was \$941,596, while total fund balance was \$1,044,957. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 9.7% of total General Fund expenditures, while total fund balance represents 10.8% of that same amount.

Within the non-major funds the Capital Projects Fund has a total fund balance of \$2,875,217, all of which is intended for the construction of the new police facility.

General Fund Budgetary Highlights

Throughout the year, the Board of Selectmen revised the original budget several times. These amendments fall into two categories.

The first category includes budgets carried over from the prior year (encumbrances). These authorize the completion of transactions in process at year end. They are reflected in the actual beginning balances in addition to the amounts appropriated at the March ballot session.

Secondly, there were several transfers of appropriations between departments to prevent budget overruns. A budget to actual schedule for the General Fund can be found on Page 41.

The actual revenues were greater than budgetary estimates by \$182 thousand and can be summarized as follows:

- Additional revenues collected for land use change tax penalties.
- Increase in interest collected on tax liens.
- Increases in cable franchise fees, building and permit fees.
- Increase in interest earnings due to more favorable interest rates
- Increases in income from charges for services from departments.
- Increases in Sewer impact fee collections

The final budget for expenditures was \$441 thousand below final budget amounts due largely in part to the following:

- Postponement of the implementation of a public works re-organization.
- Employee attrition in the planning, police, ambulance, town clerk and tax collector departments.
- Wage driven and insurance benefits related to the above staffing vacancies.
- Unused appropriations across various departments

The combination of increased revenues and decreased expenses created a budgetary surplus of \$623 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities totals \$35,751,172 net of depreciation. These assets include land and improvements, buildings, equipment, infrastructure and construction in process. The net book value of the Town's capital assets of governmental activities is reported for the first time this year in accordance with the new GASB requirements. The Town's assets are summarized in Table 3 below.

Town of Milford			
Table 3 - Capital Assets of December 31, 2004			
(Net of Depreciation)			
	Governmental Activities	Business-type Activities	Total Combined
Land and Improvements	\$ 9,945,641	\$ 275,199	\$ 10,220,840
Buildings	2,218,330	12,283,769	14,502,099
Vehicles and Equipment	2,084,679	451,879	2,536,558
Infrastructure	1,326,598	7,015,022	8,341,620
Construction in Process	150,055	-	150,055
Totals:	\$ 15,725,303	\$ 20,025,869	\$ 35,751,172

Major capital asset transactions during the year include the following additions:

- \$605,000 – Construction of a compost facility cover at the wastewater facility.
- \$297,000 – Pedestrian Bridge connecting Keyes Field to the Boys & Girls Club.
- \$208,000 – Communications equipment for use at Milford Area Communications Center.
- \$130,000 – Town wide street light replacement.
- \$ 64,000 – Caterpillar wheel loader for the Highways and Streets Department.
- \$ 60,000 – 2 Dump trucks for the Parks and Cemeteries Departments.
- \$ 23,000 – 2005 Ford Crown Victoria police cruiser.

No significant retirements or dispositions were recorded this year.

Additional information on the Town's capital assets can be found on pages 31-32 of the notes to the financial statements of this report.

Debt Administration

The Town of Milford had total debt of \$7,207,465. Of this amount, \$6,714,260 represents general obligation bond debt backed by the full faith and credit of the Town. The remainder of the Town's debt is comprised of capital leases for equipment with lease payments totaling \$493,205.

Outstanding debt including short and long term portions is summarized in Table 4 below.

Town of Milford			
Table 4 - Outstanding Debt			
December 31, 2004			
	Governmental Activities	Business-type Activities	Total as Combined
General Obligation Bonds	\$ 5,715,260	\$ 999,000	\$ 6,714,260
Capital Leases	452,952	40,253	493,205
Total Debt Outstanding	\$ 6,168,212	\$ 1,039,253	\$ 7,207,465
Less current portion:			
Amounts within one year	(676,684)	(193,547)	(870,231)
Total Long Term Debt	\$ 5,491,528	\$ 845,706	\$ 6,337,234

State statute limits the amount of general obligation debt the Town may issue to 3% of base valuation as calculated by the New Hampshire Department of Revenue. The 2004 debt limit for the Town is \$41,967,853 which is significantly in excess of the Town's outstanding general obligation debt.

The Town's bond rating has been reaffirmed as A2. Moody's Investors Service assigned the satisfactory rating to the Town in connection with the issuance of 2.9 million of general obligation bonds in August, 2004 for the construction of the police facility.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Town as of December 31, 2004 is 2.6% and compares favorably to the State's average unemployment rate of 3% and the Nashua area market rate of 3.4%.

Source: NH Department of Employment Security

The population as of December 31, 2004 is estimated to be 14,643 based on current and historical data of building permits. This is an 8.2% increase over the 2000 census report of 13,535. Population growth has been averaging 2% annually. Quality of life, affordable real estate and proximity to employment and services continue to draw development and population to the community. With this growth, the demand for services also increases.

Employee health insurance costs have risen substantially over the last few years with double digit increases expected for the 2005 budget.

The Town is committed to providing appropriate levels of service.

All of these factors are taken into consideration in preparation of the Town's budgets.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all parties interested in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Milford, 1 Union Square, Milford, NH 03055 or by telephone at (603) 672-1061.

Rosemarie Evans
Finance Director

EXHIBIT A
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 14,649,499		\$ 14,649,499
Investments	1,889,069		1,889,069
Taxes receivable, net	1,884,126		1,884,126
Accounts receivable, net	169,279	\$ 190,465	359,744
Unbilled charges for service		329,523	329,523
Due from other governments	181,217	92,312	273,529
Internal balance	(1,176,447)	1,176,447	-
Prepaid expenses	23,170		23,170
Inventory		125,329	125,329
Total Current Assets	<u>17,619,913</u>	<u>1,914,076</u>	<u>19,533,989</u>
Noncurrent Assets:			
Non-depreciable capital assets	9,087,587	243,528	9,331,115
Depreciable capital assets, net	6,637,716	19,782,341	26,420,057
Total Noncurrent Assets	<u>15,725,303</u>	<u>20,025,869</u>	<u>35,751,172</u>
Total Assets	<u>\$ 33,345,216</u>	<u>\$ 21,939,945</u>	<u>\$ 55,285,161</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 162,471	\$ 54,066	\$ 216,537
Accrued expenses	266,279	35,886	302,165
Retainage payable	5,719		5,719
Deferred revenue	8,023,597		8,023,597
Due to other governments	4,380,323	103,040	4,483,363
Current portion of bonds payable	505,260	163,500	668,760
Current portion of capital leases payable	171,398	30,047	201,445
Total Current Liabilities	<u>13,515,047</u>	<u>386,539</u>	<u>13,901,586</u>
Noncurrent Liabilities:			
Bonds payable	5,210,000	835,500	6,045,500
Capital leases payable	281,554	10,206	291,760
Compensated absences	196,782	25,756	222,538
Total Noncurrent Liabilities	<u>5,688,336</u>	<u>871,462</u>	<u>6,559,798</u>
Total Liabilities	<u>19,203,383</u>	<u>1,258,001</u>	<u>20,461,384</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,863,610	18,986,616	32,850,226
Restricted for:			
Specific purposes	852,463		852,463
Capital projects	19,866		19,866
Endowments	1,145,432		1,145,432
Unrestricted	902,005	1,695,328	2,597,333
Total Net Assets	<u>16,783,376</u>	<u>20,681,944</u>	<u>37,465,320</u>
Total Liabilities and Net Assets	<u>\$ 35,986,759</u>	<u>\$ 21,939,945</u>	<u>\$ 57,926,704</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	Total
Governmental Activities:								
General government	\$ 3,340,890	\$ 41,905	\$ -	\$ -	\$ (3,298,985)	\$ -	\$ -	\$ (3,298,985)
Public safety	3,322,842	406,104	202,935	-	(2,713,803)	-	-	(2,713,803)
Highways and streets	1,107,967	4,460	262,212	-	(841,295)	-	-	(841,295)
Health and welfare	324,515	16,250	28,314	-	(279,951)	-	-	(279,951)
Sanitation	714,272	140,031	-	-	(574,241)	-	-	(574,241)
Economic development	15,731	-	-	303,536	287,805	-	-	287,805
Culture and recreation	999,328	40,842	-	-	(958,486)	-	-	(958,486)
Interest and fiscal charges	220,434	-	-	-	(220,434)	-	-	(220,434)
Total governmental activities	10,045,979	649,592	493,461	303,536	(8,599,390)	-	-	(8,599,390)
Business-type activities:								
Water	820,873	941,817	-	-	-	120,944	120,944	120,944
Sewer	1,661,387	1,328,622	-	105,941	-	(226,824)	(226,824)	(226,824)
Total business-type activities	2,482,260	2,270,439	-	105,941	-	(105,880)	(105,880)	(105,880)
Total primary government	\$ 12,528,239	\$ 2,920,031	\$ 493,461	\$ 409,477	(8,599,390)	(105,880)	(105,880)	(8,705,270)
General revenues:								
Property and other taxes		6,295,166						
Motor vehicle permit fees		2,396,340						
Grants and contributions		845,932						
Interest and investment earnings		270,835					4,576	275,411
Miscellaneous		445,105					9,162	454,267
Transfers		(58,548)					58,548	-
Total general revenues and transfers		10,194,830					72,286	10,267,116
Change in net assets		1,595,440					(33,594)	1,561,846
Net assets - beginning - (See Note 15)		15,187,936					20,715,538	35,903,474
Net assets - ending		\$ 16,783,376					\$ 20,681,944	\$ 37,465,320

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF MILFORD, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 14,547,052	\$ 102,447	\$ 14,649,499
Investments		1,889,069	1,889,069
Taxes receivable, net	1,884,126		1,884,126
Accounts receivable, net	166,258	2,762	169,020
Due from other governments		181,217	181,217
Due from other funds	10,614	3,193,521	3,204,135
Prepaid expenses	23,170		23,170
Total Assets	<u>\$ 16,631,220</u>	<u>\$ 5,369,016</u>	<u>\$ 22,000,236</u>
LIABILITIES			
Accounts payable	\$ 141,266	\$ 21,205	\$ 162,471
Accrued expenses	161,672	7,140	168,812
Retainage payable	5,719		5,719
Due to other governments	9,439,615	2,144	9,441,759
Due to other funds	4,369,968	10,355	4,380,323
Deferred revenue	1,468,023	270,757	1,738,780
Total Liabilities	<u>15,586,263</u>	<u>311,601</u>	<u>15,897,864</u>
FUND BALANCES			
Reserved for encumbrances	103,361		103,361
Reserved for endowments		1,145,432	1,145,432
Unreserved, reported in:			
General fund	941,596		941,596
Special revenue funds		1,022,719	1,022,719
Capital projects funds		2,875,217	2,875,217
Permanent funds		14,047	14,047
Total Fund Balances	<u>1,044,957</u>	<u>5,057,415</u>	<u>6,102,372</u>
Total Liabilities and Fund Balances	<u>\$ 16,631,220</u>	<u>\$ 5,369,016</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			15,725,303
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			1,418,162
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year end consist of:			
Bonds payable			(5,715,260)
Capital leases payable			(452,952)
Accrued interest on long-term obligations			(97,467)
Compensated absences			(196,782)
Net assets of governmental activities			<u>\$ 16,783,376</u>

See accompanying notes to the basic financial statements

EXHIBIT D
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 6,205,056	\$ 19,255	\$ 6,205,056
Licenses and permits	2,377,085		2,377,085
Intergovernmental	1,173,297	469,632	1,642,929
Charges for services	529,971	119,621	649,592
Investment income	96,895	173,940	270,835
Miscellaneous	74,820	265,360	340,180
Total Revenues	10,457,124	1,047,808	11,504,932
Expenditures:			
Current operations:			
General government	3,041,255	26,495	3,067,750
Public safety	3,001,355	253,007	3,254,362
Highways and streets	963,819	7,000	970,819
Health and welfare	256,687	67,828	324,515
Sanitation	686,710		686,710
Economic development		303,535	303,535
Culture and recreation	168,993	725,205	894,198
Capital outlay	784,315	151,759	936,074
Debt service:			
Principal retirement	628,659		628,659
Interest and fiscal charges	191,332		191,332
Total Expenditures	9,723,145	1,534,829	11,257,974
Excess revenues over (under) expenditures	733,979	(487,021)	246,958
Other financing sources (uses):			
Proceeds from bond issuance		2,950,260	2,950,260
Capital lease proceeds	274,676		274,676
Operating transfers in	77,691	669,762	747,453
Operating transfers out	(669,762)	(136,239)	(806,001)
Total other financing sources (uses)	(317,395)	3,483,783	3,166,388
Excess revenues and other sources over expenditures and other uses	416,584	2,996,762	3,413,346
Fund balances at beginning of year, as restated	628,373	2,060,653	2,689,026
Fund balances at end of year	\$ 1,044,957	\$ 5,057,415	\$ 6,102,372

See accompanying notes to the basic financial statements

TOWN OF MILFORD, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net Change in Fund Balances--Total Governmental Funds	\$ 3,413,346
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	670,225
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	90,110
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(3,224,936)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	380,000
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	318,388
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	(29,102)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(22,591)
Change in Net Assets of Governmental Activities	\$ 1,595,440

EXHIBIT E
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2004

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Accounts receivable, net	\$ 72,509	\$ 117,956	\$ 190,465
Unbilled charges for service	128,695	200,828	329,523
Due from other governments		92,312	92,312
Due from other funds	732,975	443,472	1,176,447
Inventory	86,885	38,444	125,329
Total Current Assets	<u>1,021,064</u>	<u>893,012</u>	<u>1,914,076</u>
Noncurrent Assets:			
Capital assets, net	4,943,589	15,082,280	20,025,869
Total Noncurrent Assets	<u>4,943,589</u>	<u>15,082,280</u>	<u>20,025,869</u>
Total Assets	<u>\$ 5,964,653</u>	<u>\$ 15,975,292</u>	<u>\$ 21,939,945</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 14,592	\$ 39,474	\$ 54,066
Accrued expenses	13,288	22,598	35,886
Due to other governments		103,040	103,040
Current portion of capital lease payable	4,404	25,643	30,047
Current portion of bonds payable	65,000	98,500	163,500
Total Current Liabilities	<u>97,284</u>	<u>289,255</u>	<u>386,539</u>
Noncurrent Liabilities:			
Capital lease payable		10,206	10,206
Bonds payable	500,000	335,500	835,500
Compensated absences	9,076	16,680	25,756
Total Noncurrent Liabilities	<u>509,076</u>	<u>362,386</u>	<u>871,462</u>
Total Liabilities	<u>606,360</u>	<u>651,641</u>	<u>1,258,001</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,374,185	14,612,431	18,986,616
Unrestricted	984,108	711,220	1,695,328
Total Net Assets	<u>5,358,293</u>	<u>15,323,651</u>	<u>20,681,944</u>
Total Liabilities and Net Assets	<u>\$ 5,964,653</u>	<u>\$ 15,975,292</u>	<u>\$ 21,939,945</u>

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 941,817	\$ 1,328,622	\$ 2,270,439
Miscellaneous	9,162		9,162
Total operating revenues	<u>950,979</u>	<u>1,328,622</u>	<u>2,279,601</u>
Operating expenses:			
Personal services	276,571	599,322	875,893
Contractual services	277,453	309,708	587,161
Materials and supplies	83,748	153,884	237,632
Depreciation	154,010	541,989	695,999
Miscellaneous		25,446	25,446
Total operating expenses	<u>791,782</u>	<u>1,630,349</u>	<u>2,422,131</u>
Operating income	<u>159,197</u>	<u>(301,727)</u>	<u>(142,530)</u>
Non-operating revenues (expenses):			
Interest revenue	2,556	2,020	4,576
Interest expense	(29,091)	(31,038)	(60,129)
Net non-operating revenues (expenses)	<u>(26,535)</u>	<u>(29,018)</u>	<u>(55,553)</u>
Income before capital contributions and operating transfers in	132,662	(330,745)	(198,083)
Capital contributions		105,941	105,941
Operating transfers in	<u>58,548</u>		<u>58,548</u>
Change in net assets	191,210	(224,804)	(33,594)
Total net assets at beginning of year	<u>5,167,083</u>	<u>15,548,455</u>	<u>20,715,538</u>
Total net assets at end of year	<u>\$ 5,358,293</u>	<u>\$ 15,323,651</u>	<u>\$ 20,681,944</u>

See accompanying notes to the basic financial statements

EXHIBIT G
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 967,158	\$ 1,235,465	\$ 2,202,623
Cash paid to suppliers and employees	(661,635)	(1,264,277)	(1,925,912)
Net cash provided (used) by operating activities	<u>305,523</u>	<u>(28,812)</u>	<u>276,711</u>
Cash Flows from Noncapital Financing Activities			
Transfer from other funds	58,548		58,548
Net cash provided by operating activities	<u>58,548</u>	<u>-</u>	<u>58,548</u>
Cash flows from capital and related financing activities:			
Capital contributions		105,941	105,941
Purchases of capital assets	(58,403)	(123,923)	(182,326)
Principal paid on long-term debt	(65,000)	(98,500)	(163,500)
Principal paid on capital leases	(4,290)	(24,532)	(28,822)
Interest paid on long-term debt	(30,346)	(34,415)	(64,761)
Net cash (used) for capital and related financing activities	<u>(158,039)</u>	<u>(175,429)</u>	<u>(333,468)</u>
Cash flows from investing activities:			
Interest on investments	2,556	2,020	4,576
Net cash provided by investing activities	<u>2,556</u>	<u>2,020</u>	<u>4,576</u>
Net increase (decrease) in cash and cash equivalents	208,588	(202,221)	6,367
Cash and cash equivalents at beginning of year	524,387	645,693	1,170,080
Cash and cash equivalents at end of year	<u>\$ 732,975</u>	<u>\$ 443,472</u>	<u>\$ 1,176,447</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 159,197	\$ (301,727)	\$ (142,530)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	154,010	541,989	695,999
Changes in assets and liabilities:			
Accounts receivable, net	(31,637)	(55,036)	(86,673)
Unbilled charges for service	47,816	41,543	89,359
Due from other governments		(79,664)	(79,664)
Inventory	(21,437)	847	(20,590)
Accounts payable	4,640	(275,514)	(270,874)
Accrued expenses	(7,066)	(4,290)	(11,356)
Due to other governments		103,040	103,040
Net cash provided (used) by operating activities	<u>\$ 305,523</u>	<u>\$ (28,812)</u>	<u>\$ 276,711</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Private- Purpose Trusts	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 232,012
Investments	\$ 1,998,600	15,431
Total assets	<u>\$ 1,998,600</u>	<u>\$ 247,443</u>
LIABILITIES		
Due to developers		\$ 247,184
Due to other funds		259
Total liabilities	<u>\$ -</u>	<u>\$ 247,443</u>
NET ASSETS		
Held in trust	1,998,600	
Total net assets	<u>\$ 1,998,600</u>	

See accompanying notes to the basic financial statements

EXHIBIT 1
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2004

	Private- Purpose Trust Fund
ADDITIONS:	
Contributions:	
Private donations	\$ 56,001
Total Contributions	<u>56,001</u>
Investment earnings:	
Interest	54,994
Net increase in the fair value of investments	<u>86,564</u>
Total Investment Earnings	<u>141,558</u>
Less investment expense	-
Net Investment Earnings	<u>141,558</u>
Total Additions	<u>197,559</u>
DEDUCTIONS:	
Benefits	<u>28,853</u>
Total Deductions	<u>28,853</u>
Change in Net Assets	168,706
Net assets - beginning of year	<u>1,829,894</u>
Net assets - end of year	<u>\$ 1,998,600</u>

See accompanying notes to the basic financial statements

**TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Milford, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Town of Milford, New Hampshire (the Town) was incorporated in 1794. The Town operates under the Town Meeting/Board of Selectmen form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibility. The Town has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basic Financial Statement Presentation

During fiscal year 2004, the Town has implemented the following GASB Statements:

- GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions"
- GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"
- GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"
- GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus"
- GASB Statement No. 38, "Certain Financial Statement Note Disclosures"
- GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements"

At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements 33, 36, 37, and 38. GASB 34 creates new basic financial statements reporting on the Town's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements combine the governmental activities and business-type activities into one column for each category. The beginning net asset amount for governmental programs

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

2. Fund Financial Statements:

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Town's major governmental fund:

**TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

The General Fund is the operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The Town has no internal service funds. The following are the Town's major proprietary funds:

The Water and Sewer Funds account for all revenues and expenses pertaining to the Town's water and wastewater operations. The Water and Sewer Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private purpose trust funds, pension trust funds, investment trust funds and agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Town's own programs. The Town's only trust funds are three private purpose trust which account for school programs. The Town's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Town's agency fund accounts for the escrow funds from developers which are held by the Town.

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The Town's budget represents functional appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories as they deem necessary. The Town adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2004, the Town applied \$184,527 of its unappropriated fund balance to reduce taxes.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Cash and Cash Equivalents

The Town pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	<u>Interfund Receivable</u>
Proprietary Funds:	
Water Fund	\$ 732,975
Sewer Fund	443,472
	<u>\$ 1,176,447</u>

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at December 31, 2004 are recorded as receivables net of reserves for estimated uncollectibles of \$398,188.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2004 are recorded as prepaid items.

Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

Capital Assets

General capital assets result from expenditures in the governmental and proprietary funds. These assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

The Town is not required to retroactively report its general infrastructure (e.g. roads, bridges, and sidewalks). Infrastructure records have been maintained for the proprietary funds and are included in these financial statements.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

<u>Description</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements	20-50
Infrastructure	20-75
Furniture and equipment	5-15
Vehicles	8-15

Compensated Absences

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Pursuant to Town personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused sick pay earned and, upon retirement, resignation or death will be compensated for such amounts at current rates of pay.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Reserves

The Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund and sewer fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$794,609,350 as of April 1, 2004) and are due in two installments on July 1, 2004 and December 1, 2004. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property is tax deeded to the Town.

In accordance with State law, the Town collects taxes for the Milford School District and Hillsborough County, both independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire Education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$18,399,969 and \$1,368,474 for the Milford School District and Hillsborough County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 3—RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2004, the Town was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The Town currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

The Trust agreement permits the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2004.

NOTE 4—CASH AND INVESTMENTS

The Town has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

The Town's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Town limits its investments to demand deposits, money market accounts, certificates of deposit, and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Responsibility for the investments of the Trust Funds is with the Board of Trustees.

The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

At year end, the carrying amount of the Town's cash deposits was \$14,881,511 and the bank balance was \$15,087,335. Of the bank balance, \$177,416 was covered by federal depository insurance and \$14,909,919 was collateralized by securities held by the bank.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

The Town's investments are categorized to provide an indication of the level of risk assumed by the Town of Milford. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Town's name.

At year end, the Town's investment balances were as follows:

	Category			Fair
	1	2	3	Value
Certificate of deposit	\$ 15,431		\$ -	\$ 15,431
Corporate bonds		\$ 1,352,608		1,352,608
Corporate stock		2,151,262		2,151,262
	<u>\$ 15,431</u>	<u>\$ 3,503,870</u>	<u>\$ -</u>	<u>3,519,301</u>
Investment in money market funds				323,595
Investments in New Hampshire Public Deposit Investment Pool (NHPDIP)				60,204
Total Investments				<u>\$ 3,903,100</u>

Investments in money market funds and the NHPDIP are not investment securities and, as such, are not categorized by risk.

NOTE 5--DUE FROM OTHER GOVERNMENTS

Receivables from other governments at December 31, 2004 consist of federal and county grants and the amount due from the Town of Wilton for their share of wastewater expenses during the year. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

Town of Wilton	\$ 92,312
Federal grants	168,082
County grants	13,135
	<u>\$ 273,529</u>

NOTE 6--CAPITAL ASSETS

The following is a summary of changes in capital assets in the governmental funds:

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 8,832,607	\$ 104,925		\$ 8,937,532
Construction in process	9,391	437,859	\$ (297,195)	150,055
Total capital assets not being depreciated	8,841,998	542,784	(297,195)	9,087,587
Other capital assets:				
Infrastructure	1,116,081	297,195	-	1,413,276
Land improvements	1,484,165	130,000	-	1,614,165
Buildings and improvements	3,962,159	26,540	-	3,988,699
Vehicles and equipment	3,793,791	541,107	-	4,334,898
Total other capital assets at historical cost	10,356,196	994,842	-	11,351,038
Less accumulated depreciation for:				
Infrastructure	(27,902)	(58,776)	-	(86,678)
Land improvements	(534,065)	(71,992)	-	(606,057)
Buildings and improvements	(1,673,080)	(97,287)	-	(1,770,367)
Vehicles and equipment	(1,908,069)	(342,151)	-	(2,250,220)
Total accumulated depreciation	(4,143,116)	(570,206)	-	(4,713,322)
Total other capital assets, net	6,213,080	424,636	-	6,637,716
Total capital assets, net	\$ 15,055,078	\$ 967,420	\$ (297,195)	\$ 15,725,303

Depreciation expense was charged to governmental functions as follows:

General government	\$ 154,362
Public safety	225,292
Highways and streets	137,148
Sanitation	27,542
Culture and recreation	25,862
Total governmental activities depreciation expense	\$ 570,206

The balance of the assets acquired through capital leases as of December 31, 2004 is as follows:

Vehicles and equipment	\$ 793,672
Less accumulated depreciation for:	
Vehicles and equipment	(99,248)
	\$ 694,424

During the year ending December 31, 2004, the Town received a donated capital asset. This asset has been recorded at the fair value as of the date received and is included in the government-wide financial statements. The total value received and capitalized during the year is as follows:

Land	\$ 104,925
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The following is a summary of changes in capital assets in the proprietary funds:

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 243,528			\$ 243,528
Construction in process	566,901	\$ 37,746	\$ (604,647)	-
Total capital assets not being depreciated	810,429	37,746	(604,647)	243,528
Other capital assets:				
Land improvements	56,757			56,757
Buildings and improvements	23,583,672	746,720	(24,685)	24,305,707
Vehicles and equipment	6,630,771	88,946	(23,002)	6,696,715
Total other capital assets at historical cost	30,271,200	835,666	(47,687)	31,059,179
Less accumulated depreciation for:				
Land improvements	(23,715)	(1,371)		(25,086)
Buildings and improvements	(8,953,426)	(500,250)	828	(9,452,848)
Vehicles and equipment	(1,651,385)	(194,378)	46,859	(1,798,904)
Total accumulated depreciation	(10,628,526)	(695,999)	47,687	(11,276,838)
Total other capital assets, net	19,642,674	139,667	-	19,782,341
Total capital assets, net	\$ 20,453,103	\$ 177,413	\$ (604,647)	\$ 20,025,869

Depreciation expense was charged to proprietary funds as follows:

Water Fund	\$ 154,010
Sewer Fund	541,989
	<u>\$ 695,999</u>

The balance of the assets acquired through capital leases as of December 31, 2004 is as follows:

Vehicles and equipment	\$ 140,669
Less accumulated depreciation for:	
Vehicles and equipment	(43,328)
	<u>\$ 97,341</u>

NOTE 7--DEFINED BENEFIT PLAN

Plan Description

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 4 Chencell Drive, Concord, New Hampshire 03301.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas teachers and general employees are required to contribute 5.0% of their covered salary. The Town is required to contribute -at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers, fire employees, and general employees were 7.87%, 13.44%, and 5.90%, respectively. The Town contributes 65% of the employer cost for police officers and fire employees, and the State contributes the remaining 35% of the employer cost. The Town contributes 100% of the employer cost for general employees of the Town. In accordance with accounting principles generally accepted in the United States of America (GASB Statement #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$65,153 have been reported as a revenue and expenditure in the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2004, 2003, and 2002 were \$301,369, \$240,909, and \$179,106, respectively, equal to the required contributions for each year.

NOTE 8—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2004 are as follows:

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004	Due Within One Year
Governmental activities:					
Bonds payable	\$ 3,145,000	\$ 2,950,260	\$ (380,000)	\$ 5,715,260	\$ 505,260
Capital leases payable	496,664	274,676	(318,388)	452,952	171,398
Compensated absences	174,191	22,591	-	196,782	-
Total governmental activities	<u>\$ 3,815,855</u>	<u>\$ 3,247,527</u>	<u>\$ (698,388)</u>	<u>\$ 6,364,994</u>	<u>\$ 676,658</u>
Business-type activities:					
Bonds payable	\$ 1,162,500	\$ -	\$ (163,500)	\$ 999,000	\$ 163,500
Capital lease payable	69,075	-	(28,822)	40,253	30,047
Compensated absences	30,709	-	(4,953)	25,756	-
Total business-type activities	<u>\$ 1,262,284</u>	<u>\$ -</u>	<u>\$ (197,275)</u>	<u>\$ 1,065,009</u>	<u>\$ 193,547</u>

Payments on the general obligation bonds and capital leases are paid out of the General Fund. Payments on the general obligation bonds and capital leases of the business-type activities are paid out of the Water and Sewer Funds. Compensated absences will be paid from the fund where the employee's salary is paid.

General Obligation Bonds

Bonds payable at December 31, 2004 are comprised of the following individual issues:

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

	Interest Rate	Final Maturity Date	Balance at 12/31/2004
Governmental Activities:			
Sewer Bond	5%	10/2009	\$ 750,000
Sewer Extension	5.25-5.50%	8/2010	210,000
Town Hall Renovation	6.15%	1/2009	300,000
Water Main Extension	4.7-5.30%	8/2017	485,000
Brox Property Purchase	5.0-5.25	1/2015	1,020,000
Police Station	3.7-4.50%	3/2024	2,950,260
			<u>\$ 5,715,260</u>
Business-type Activities:			
Water Fund:			
Water Main Extension	5.25-5.50%	8/2005	\$ 15,000
Capital Improvements	6.5-7.0%	8/2011	70,000
Water Main Extension	4.125-4.75%	8/2016	480,000
			<u>565,000</u>
Sewer Fund:			
Sewer Main Note	6.7-6.75%	7/2009	275,000
Aeration System	5.25-5.50%	8/2007	45,000
SCADA System Upgrade	4.55%	7/2008	114,000
			<u>434,000</u>
			<u>\$ 999,000</u>

Debt service requirements to retire general obligation bonds for governmental activities at December 31, 2004 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2005	\$ 505,260	\$ 260,654	\$ 765,914
2006	505,000	235,420	740,420
2007	530,000	210,175	740,175
2008	530,000	183,938	713,938
2009	530,000	157,616	687,616
2010-2014	1,420,000	539,675	1,959,675
2015-2019	945,000	265,438	1,210,438
2020-2024	750,000	98,250	848,250
	<u>\$ 5,715,260</u>	<u>\$ 1,951,166</u>	<u>\$ 7,666,426</u>

The State of New Hampshire annually reimburses the Town for its share of sewer related debt service payments. For the year ended December 31, 2004, the sewer reimbursement was \$155,058.

As included on the Statement of Activities (Exhibit B), interest for the year ended December 31, 2004 was \$220,434 on general obligation debt for governmental activities.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

Debt service requirements to retire general obligation bonds for business-type activities at December 31, 2004 are as follows:

Water Fund:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 65,000	\$ 26,998	\$ 91,998
2006	50,000	23,870	73,870
2007	50,000	21,530	71,530
2008	50,000	19,180	69,180
2009	50,000	16,760	66,760
2010-2014	220,000	48,610	268,610
2015-2017	80,000	5,740	85,740
	<u>\$ 565,000</u>	<u>\$ 162,688</u>	<u>\$ 727,688</u>

Sewer Fund:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 98,500	\$ 26,037	\$ 124,537
2006	98,500	20,268	118,768
2007	98,500	14,499	112,999
2008	83,500	8,722	92,222
2009	55,000	3,713	58,713
	<u>\$ 434,000</u>	<u>\$ 73,239</u>	<u>\$ 507,239</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2004 was \$60,129 on general obligation debt for business-type activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. Following are the individual capital lease obligations at December 31, 2004:

	<u>Interest</u> <u>Rate</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Balance</u> <u>at</u> <u>12/31/2004</u>
Governmental Activities:			
Fire truck	2.83%	1/2007	\$ 152,589
Copier	14.923%	4/2006	6,168
Equipment	2.66%	5/2005	4,404
Equipment	2.89%	5/2007	80,962
Equipment	2.31%	4/2008	208,829
			<u>\$ 452,952</u>

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Balance at 12/31/2004</u>
Business-type Activities:			
Water Fund:			
3/4 Ton 4 Wheel Drive Truck	2.66%	5/2005	\$ 4,404
Sewer Fund:			
Pickup truck	3.21%	4/2006	20,090
Tractor/backhoe	5.35%	5/2005	15,759
			<u>35,849</u>
			\$ 40,253

Debt service requirements to retire capital lease obligations outstanding for governmental and business-type activities at December 31, 2004 are as follows:

Governmental activities:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 171,398	\$ 12,211	\$ 183,609
2006	168,436	7,232	175,668
2007	69,952	2,771	72,723
2008	43,166	995	44,161
	<u>\$ 452,952</u>	<u>\$ 23,209</u>	<u>\$ 476,161</u>

Business-type activities:

Water Fund

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 4,404	\$ 117	\$ 4,521

Sewer Fund

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 25,643	\$ 1,498	\$ 27,141
2006	10,206	333	10,539
	<u>\$ 35,849</u>	<u>\$ 1,831</u>	<u>\$ 37,680</u>

NOTE 9-INTERFUND BALANCES AND TRANSFERS

The Town has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at December 31, 2004 are as follows:

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

	Due from			Totals
	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	
General Fund		\$ 10,355	\$ 259	\$ 10,614
Nonmajor Governmental Funds	\$ 3,193,521			3,193,521
Water Fund	732,975			732,975
Sewer Fund	443,472			443,472
	<u>\$ 4,369,968</u>	<u>\$ 10,355</u>	<u>\$ 259</u>	<u>\$ 4,380,582</u>

During the year, several interfund transactions occurred between funds. The various operating transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2004 are as follows:

	Transfer from		Totals
	General Fund	Nonmajor Governmental Funds	
General Fund		\$ 77,691	\$ 77,691
Water Fund		58,548	58,548
Nonmajor Governmental Funds	\$ 669,762	-	669,762
	<u>\$ 669,762</u>	<u>\$ 136,239</u>	<u>\$ 806,001</u>

NOTE 10--PERMANENT FUNDS

Permanent funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the Town's programs. Principal and income balances at December 31, 2004 are as follows:

	Principal	Income	Total
Cemetery Funds	\$ 512,774		\$ 512,774
Library Funds	298,124	\$ 2,375	300,499
Parks	86,461	2,078	88,539
Town	248,073	9,594	257,667
	<u>\$ 1,145,432</u>	<u>\$ 14,047</u>	<u>\$ 1,159,479</u>

NOTE 11--UNRESERVED FUND BALANCES

The unreserved fund balance of the General Fund as of December 31, 2004 is as follows:

Designated for continuing appropriations	\$ 205,898
Undesignated	735,698
Total per Exhibit C	<u>\$ 941,596</u>

**TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

NOTE 12—PERFORMANCE DEPOSITS

The Town holds letters of credit and performance bonds from developers until projects have been completed to Town standards. These letters of credit and bonds are not included as part of the financial statements. At December 31, 2004, the Town held performance deposits totaling \$2,805,894.

NOTE 13—COMMITMENTS AND CONTINGENCIES

Water Supply Contract

On March 21, 2002, the Town of Milford entered into an agreement with Pennichuck Water Works, Inc. for supplying water. The term of the agreement is for 20 years with minimum payments of \$81,000 per year. Monthly payments commenced April 1, 2002. Each year's appropriation is expected to be made at the Town meeting.

Sanitation Contract

On July 1, 2003, the Town entered into a long-term contract with an independent company for the disposal of solid waste from the transfer station until June 30, 2008. Terms of the agreement include a disposal rate per ton, adjusted annually be an agreed upon percentage. The estimated municipal solid waste disposal is 3,300 tons and the estimated demolition solid waste disposal is 1,300 tons. For the year ended December 31, 2004, the Town expended \$360,543 under the terms of the agreement. Each year's appropriation is expected to be made at the Town meeting.

Litigation

The Town's general counsel estimates that any potential claims against the Town, which are not covered by insurance, are immaterial and would not affect the financial position of the Town.

Federal Grants

The Town participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 14—MILFORD AREA COMMUNICATION CENTER

The Town of Milford is a member of the Milford Area Communication Center. This is a joint venture with five neighboring towns to provide communication dispatch services. The Center is managed by board members representing the participating towns. The Town does not exercise any control over the budgeting and financing of the Center's activities. Financial statements are available from the Milford Area Communication Center. The intermunicipal agreement calls for sharing of budget expenses in proportion to population. Milford's share for 2004 amounted to 42.635%. The Center rents space in the Milford Town Hall for \$3,000 per year.

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 15—RESTATEMENT OF EQUITY

Correction of an Error

At December 31, 2003, the balance of ambulance receivables, net was understated by \$76,817. In addition, it was determined that the balance of the current portion of compensated absences payable was calculated incorrectly. As a result, the fund balance in the General Fund has been restated as follows:

Fund balance, December 31, 2003 (as previously reported)	\$ 1,842,107
Amount of restatement due to:	
Understatement of ambulance receivables, net	76,817
Overstatement of compensated absences payable	37,501
Fund balance, December 31, 2003, as restated	<u>\$ 1,956,425</u>

Governmental Funds

Effective December 31, 2003, the Town retroactively changed its method of financial reporting to conform with a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 34). This new statement narrowed the definition for the fiduciary fund types. As a result, the Town's expendable trust funds were reclassified into private-purpose trust funds and special revenue funds, and the Town's non-expendable trust funds were reclassified as permanent funds.

The impact of these restatements on the governmental funds is as follows:

	General Fund	Special Revenue Funds	Fiduciary Funds	Total
Fund Balance, January 1 - as restated per above	\$ 1,956,425	\$ 308,132	\$ 3,582,415	\$ 5,846,972
Amount of restatement due to:				
Property taxes recognized on an accrual basis	(1,328,052)			(1,328,052)
Reclassification of Expendable Trust Funds to Private-Purpose Trust Funds			(1,829,894)	(1,829,894)
Reclassification of Expendable Trust Funds to Special Revenue Funds		653,532	(653,532)	-
Reclassification of Non-Expendable Trust Funds as Permanent Funds		1,098,989	(1,098,989)	-
Fund Balance, July 1 - per Exhibit D	<u>\$ 628,373</u>	<u>\$ 2,060,653</u>	<u>\$ -</u>	2,689,026
Amount of restatement due to conversion to the GASB Statement No. 34 model:				
Capital assets, net				15,055,078
Deferred tax revenue				1,328,052
Amounts previously recorded in the General Long-Term Debt Account Group -				
Bonds payable				(3,145,000)
Capital leases payable				(496,664)
Accrued interest on long-term obligations				(68,365)
Compensated absences				(174,191)
Net assets, January 1 - per Exhibit B				<u>\$ 15,187,936</u>

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

Proprietary Funds

Under the new method of financial reporting, the equity accounts no longer separately report contributed capital and retained earnings. Instead, these amounts have been combined into the category of net assets. Net assets at January 1, 2004 have been restated as follows:

	Water Fund	Sewer Fund	Total
Balance, January 1 - as previously reported	\$ 2,527,658	\$ 3,454,876	\$ 5,982,534
Amount of restatement due to conversion to the GASB Statement No. 34 model:			
Contributed capital balances	<u>2,639,425</u>	<u>12,093,579</u>	<u>14,733,004</u>
Balance, January 1 - as restated	<u>\$ 5,167,083</u>	<u>\$ 15,548,455</u>	<u>\$ 20,715,538</u>

SCHEDULE 1
TOWN OF MILFORD, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 6,230,865	\$ 6,230,865	\$ 6,295,166	\$ 64,301
Licenses and permits	2,365,230	2,365,230	2,377,085	11,855
Intergovernmental	1,115,842	1,115,842	1,108,144	(7,698)
Charges for services	482,105	482,105	529,971	47,866
Interest income	75,000	75,000	96,895	21,895
Miscellaneous	68,582	68,582	74,820	6,238
Total Revenues	<u>10,337,624</u>	<u>10,337,624</u>	<u>10,482,081</u>	<u>144,457</u>
Expenditures:				
Current:				
General government	3,276,402	3,285,549	3,112,649	172,900
Public safety	3,002,705	3,078,416	2,935,123	143,293
Highways and streets	1,036,490	1,040,164	977,424	62,740
Health and welfare	232,798	232,798	256,687	(23,889)
Sanitation	720,357	713,435	681,555	31,880
Culture and recreation	192,866	199,788	168,707	31,081
Capital outlay	736,832	442,402	424,498	17,904
Debt service:				
Principal retirement	628,659	628,659	628,659	-
Interest and fiscal charges	196,040	196,040	191,332	4,708
Total Expenditures	<u>10,023,149</u>	<u>9,817,251</u>	<u>9,376,634</u>	<u>440,617</u>
Excess revenues over (under) expenditures	<u>314,475</u>	<u>520,373</u>	<u>1,105,447</u>	<u>585,074</u>
Other financing sources (uses):				
Proceeds from debt issues				-
Operating transfers in	40,000	40,000	77,691	37,691
Operating transfers out	(669,762)	(669,762)	(669,762)	-
Total other financing sources (uses)	<u>(629,762)</u>	<u>(629,762)</u>	<u>(592,071)</u>	<u>37,691</u>
Excess revenues and other sources over expenditures and other uses	<u>(315,287)</u>	<u>(109,389)</u>	<u>513,376</u>	<u>622,765</u>
Fund balances at beginning of year				
- Budgetary Basis	<u>1,846,382</u>	<u>1,846,382</u>	<u>1,846,382</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 1,531,095</u>	<u>\$ 1,736,993</u>	<u>\$ 2,359,758</u>	<u>\$ 622,765</u>

See accompanying notes to the required supplementary information

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2004

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

Amounts recorded as budgetary amounts in the Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) are reported on the basis budgeted by the Town. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Budgetary information in these financial statements has been presented only for the General Fund as it is neither practical nor meaningful for other funds. Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for encumbrances, on-behalf payments for fringe benefits, and capital lease transactions.

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
per Exhibit D	\$ 10,809,491	\$ 10,392,907
Difference in property taxes meeting susceptible to accrual criteria	90,110	
Encumbrances, December 31, 2003		(110,043)
Encumbrances, December 31, 2004		103,361
On-behalf fringe benefits	(65,153)	(65,153)
Capital lease equipment	(274,676)	(274,676)
per Schedule 1	<u>\$ 10,559,772</u>	<u>\$ 10,046,396</u>

SCHEDULE A
TOWN OF MILFORD, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2004

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Combining Totals
ASSETS				
Cash and cash equivalents	\$ 102,447			\$ 102,447
Investments	719,235		\$ 1,169,834	1,889,069
Accounts receivable, net	2,762			2,762
Due from other governments	181,217			181,217
Due from other funds	298,804	\$ 2,894,717		3,193,521
Total Assets	<u>\$ 1,304,465</u>	<u>\$ 2,894,717</u>	<u>\$ 1,169,834</u>	<u>\$ 5,369,016</u>
LIABILITIES				
Accounts payable	\$ 1,705	\$ 19,500		\$ 21,205
Accrued expenses	7,140			7,140
Due to other governments	2,144			2,144
Due to other funds			\$ 10,355	10,355
Deferred revenue	270,757			270,757
Total Liabilities	<u>281,746</u>	<u>19,500</u>	<u>10,355</u>	<u>311,601</u>
FUND BALANCES				
Reserved for endowments			1,145,432	1,145,432
Unreserved, reported in:				
Special revenue funds	1,022,719			1,022,719
Capital projects funds		2,875,217		2,875,217
Permanent funds			14,047	14,047
Total Fund Balances	<u>1,022,719</u>	<u>2,875,217</u>	<u>1,159,479</u>	<u>5,057,415</u>
Total Liabilities and Fund Balances	<u>\$ 1,304,465</u>	<u>\$ 2,894,717</u>	<u>\$ 1,169,834</u>	<u>\$ 5,369,016</u>

SCHEDULE A-1
TOWN OF MILFORD, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
December 31, 2004

	Library Fund	Impact Fees Fund	Heritage Fund	Fire Alarm Fund	Recreation Fund	Special Purpose Funds	Conservation Commission	Expendable Trust Funds	Capital Reserve Funds	Combining Totals
ASSETS										
Cash	\$ 60,128							\$ 42,319	\$ 95,501	\$ 102,447
Investments	60,204				\$ 270	\$ 2,492		563,530		719,235
Accounts receivable						181,217				2,762
Due from other governments					6,734	90,692	\$ 123,517			181,217
Due from other funds		\$ 19,697	\$ 1,005	\$ 57,159		\$ 274,401	\$ 123,517			298,804
Total Assets	\$ 120,332	\$ 19,697	\$ 1,005	\$ 57,159	\$ 7,004	\$ 274,401	\$ 123,517	\$ 605,849	\$ 95,501	\$ 1,304,465
LIABILITIES										
Accounts payable				\$ 178		\$ 1,500	\$ 27			\$ 1,705
Accrued expenses	\$ 6,983			74			83			7,140
Due to other governments						2,144				2,144
Deferred revenue						270,757				270,757
Total Liabilities	6,983	\$ -	\$ -	252	\$ -	274,401	110	\$ -	\$ -	281,746
FUND BALANCES										
Unreserved, reported in:										
Special revenue funds	113,349	19,697	1,005	56,907	7,004		123,407	605,849	95,501	1,022,719
Total Fund Balances	113,349	19,697	1,005	56,907	7,004	-	123,407	605,849	95,501	1,022,719
Total Liabilities and Fund Balances	\$ 120,332	\$ 19,697	\$ 1,005	\$ 57,159	\$ 7,004	\$ 274,401	\$ 123,517	\$ 605,849	\$ 95,501	\$ 1,304,465

SCHEDULE B
TOWN OF MILFORD, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Funds
For the Year Ended December 31, 2004

	Special Revenue Funds	Capital Project Fund	Permanent Funds	Combining Totals
Revenues:				
Licenses and permits	\$ 19,255			\$ 19,255
Intergovernmental	469,632			469,632
Charges for services	119,621			119,621
Investment income	52,212	\$ 19,866	\$ 101,862	173,940
Miscellaneous	255,147		10,213	265,360
Total Revenues	<u>915,867</u>	<u>19,866</u>	<u>112,075</u>	<u>1,047,808</u>
Expenditures:				
Current operations:				
General government	10,167		16,328	26,495
Public safety	253,007			253,007
Highways and streets	7,000			7,000
Health and welfare	67,828			67,828
Economic development	303,535			303,535
Culture and recreation	689,948		35,257	725,205
Capital outlay	56,850	94,909		151,759
Total Expenditures	<u>1,388,335</u>	<u>94,909</u>	<u>51,585</u>	<u>1,534,829</u>
Excess of revenues over (under) expenditures	<u>(472,468)</u>	<u>(75,043)</u>	<u>60,490</u>	<u>(487,021)</u>
Other financing sources (uses):				
Proceeds from bond issuance		2,950,260		2,950,260
Operating transfers in	669,762			669,762
Operating transfers out	(136,239)			(136,239)
Total other financing sources (uses)	<u>533,523</u>	<u>2,950,260</u>	<u>-</u>	<u>3,483,783</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>61,055</u>	<u>2,875,217</u>	<u>60,490</u>	<u>2,996,762</u>
Fund balances at beginning of year	<u>961,664</u>		<u>1,098,989</u>	<u>2,060,653</u>
Fund balances at end of year	<u>\$ 1,022,719</u>	<u>\$2,875,217</u>	<u>\$ 1,159,479</u>	<u>\$ 5,057,415</u>

SCHEDULE B-1
TOWN OF MILFORD, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Special Revenue Funds
For the Year Ended December 31, 2004

	Library Fund	Impact Fees Fund	Heritage Fund	Fire Alarm Fund	Recreation Fund	Special Purpose Funds	Conservation Commission	Expendable Trust Funds	Capital Reserve Funds	Combining Totals
Revenues:				\$ 16,566		\$ 2,689				\$ 19,255
Licenses and permits						469,632				469,632
Intergovernmental						61,511				119,621
Charges for services	\$ 432	\$ 1,362	\$ 5	280	\$ 40,842		\$ 614	\$ 17,268	\$ 690	52,212
Investment income	72,597	142,732		2,140	50	1,609		47,170		255,147
Miscellaneous	73,029	144,094	5	18,986	2,525	34,897	100	156		915,867
Total Revenues					43,417	570,338	714	64,594	690	
Expenditures:										
Current operations:										
General government						5,909		4,258		10,167
Public safety						253,007				253,007
Highways and streets						7,000				7,000
Health and welfare				17,568		50,260				67,828
Economic development						303,535	17,320	13,208		303,535
Culture and recreation	596,225				62,484	711				689,948
Capital outlay	24,850				32,000					56,850
Total Expenditures	621,075	-	-	17,568	94,484	620,422	17,320	17,466	-	1,388,335
Excess of revenues over (under) expenditures	(548,046)	144,094	5	1,418	(51,067)	(50,084)	(16,606)	47,128	690	(472,468)
Other financing sources:										
Operating transfers in	564,588				20,000	21,044	64,130			669,762
Operating transfers out		(136,239)								(136,239)
Total other financing sources	564,588	(136,239)	-	-	20,000	21,044	64,130	-	-	533,523
Excess of revenues and other sources over (under) expenditures	16,542	7,855	5	1,418	(31,067)	(29,040)	47,524	47,128	690	61,055
Fund balances at beginning of year	96,807	11,842	1,000	55,489	38,071	29,040	75,883	558,721	94,811	961,664
Fund balances at end of year	\$ 113,349	\$ 19,697	\$ 1,005	\$ 56,907	\$ 7,004	\$ -	\$ 123,407	\$ 605,849	\$ 95,501	\$ 1,022,719